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For Immediate Release: June 1, 2005

PAETEC Expands Service in Northern Virginia

STERLING, VA – PAETEC Communications, Inc., announced that the company now offers its full array of services – including local, long distance, Internet, data, and managed services – to Northern Virginia business customers, as service is now available in Culpeper, Frederick, Loudoun, and Spotsylvania Counties.

"PAETEC recognizes the importance of Northern Virginia as a growing region," said John Vittori, Virginia regional sales manager for PAETEC. "We believe that area businesses are looking for a competitive carrier that can offer products and services over a state-of-the-art network while also providing unmatched customer service."

In the mid-Atlantic region, PAETEC operates sales offices in Baltimore and Washington, D.C., along with a sales office and switch site in Sterling, Va.

About PAETEC

PAETEC Corp., through its operating subsidiary, PAETEC Communications, Inc., is a provider of integrated communications services, including local and long distance voice services, data and Internet services, software applications, network integration services, and managed services. PAETEC currently provides these services to medium-sized and large businesses, colleges and universities, hospitals, hotels, governmental organizations, financial markets, and affinity groups within its 28-market service area. The company is headquartered in Fairport, N.Y.

PAETEC COMMUNICATIONS

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FOR IMMEDIATE RELEASE: May 16, 2005

PAETEC Opens New Sales Office In Tampa

TAMPA, FLA. - PAETEC Communications, Inc., a national communications solutions provider, announced that it has expanded its market footprint in the Sunshine state by opening a sales office in the Westshore area of Tampa.

"PAETEC recognizes Tampa as a vital market, and as an opportunity for a competitive carrier that caters to medium-sized and large businesses," said Matt Cardenas, Tampa regional sales manager for PAETEC.

The new office, located at Airport Executive Center, 2203 N. Lois Avenue, in Tampa, complements PAETEC's sales offices in Daytona Beach, Ft. Lauderdale, and Orlando, and its Miami switch site, and represents PAETEC's continued growth and stability in Florida. The Tampa office houses both sales and sales support personnel.

"The entry into a fourth major market in Florida further validates our belief that PAETEC offers its customers a first-class telecommunications solution," added Cardenas. "Our philosophy is to create local sales forces that provide a personal level of contact not found anywhere else."

~ more ~

About PAETEC

PAETEC Corp., through its operating subsidiary, PAETEC Communications, Inc., is a provider of integrated communications services, including local and long distance voice services, data and Internet services, software applications, network integration services, and managed services. PAETEC currently provides these services to medium-sized and large businesses, colleges and universities, hospitals, hotels, governmental organizations, financial markets, and affinity groups within its 28-market service area. The company is headquartered in Fairport, N.Y.

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For Immediate Release: May 13, 2005

PAETEC Expands MPLS Network to 151 Markets

FAIRPORT, NY – PAETEC Communications, Inc., a national communications solutions provider, today announced that its SECURETEC Multi-Protocol Label Switching (MPLS) network has expanded from 27 to 151 markets, enabling the company to offer its data services to every major market in the country.

PAETEC's establishment of one of the first MPLS-to-MPLS, network-to-network interface solutions (based on the RFC 2547bis - option C industry standard), reduces network management resources while increasing network scalability in a secure, private environment.

The network extension allows PAETEC to offer a complete MPLS with Quality of Service (QoS) solution to areas once considered 'off-net.' This means that if a customer has one or more sites outside of PAETEC's traditional footprint, PAETEC has a solution that enables data traffic to pass seamlessly and securely between 'on-net' and extended reach locations.

By replacing antiquated Frame Relay and point-to-point connections, SECURETEC MPLS with QoS makes networking simpler and faster, allowing PAETEC to offer a complete and secure solution. PAETEC will target those customers with multiple locations spread across the United States and Canada.

"A big advantage to customers is the elevated level of service we can provide," said Brad Bono, chief operating officer for PAETEC. "By extending our network footprint, we can now support and service all sites for our customers."

Existing customers will be given the option to migrate to the new MPLS network when their current contract expires, while new customers will automatically be activated on the *new network.*

About PAETEC

PAETEC Corp., through its operating subsidiary, PAETEC Communications, Inc., is a provider of integrated communications services, including local and long distance voice services, data and Internet services, software applications, network integration services, and managed services. PAETEC currently provides these services to medium-sized and large businesses, colleges and universities, hospitals, hotels, governmental organizations, financial markets, and affinity groups within its 28-market service area. The company is headquartered in Fairport, N.Y.

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PAETEC COMMUNICATIONS

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FOR IMMEDIATE RELEASE: January 12, 2005

PAETEC Opens New Sales Office In D.C.

WASHINGTON, D.C. - PAETEC Communications, Inc., a communications solutions provider of voice and data solutions with local offices in Sterling, Va., and Baltimore, announced that it has expanded its market footprint in the nation's capitol by opening a sales office in downtown Washington.

"PAETEC recognizes this as a vital market, and as an opportunity for a competitive carrier that caters to medium-sized and large businesses," said Snezana Cockburn, D.C. regional sales manager for PAETEC.

The new office, located at 1156 15th Street NW, #1105 in Washington, complements PAETEC's Baltimore sales office and Sterling switch site, and represents its continued growth and stability in the mid-Atlantic region. The new office houses both sales and sales support personnel.

"The opening of a third office in this region further validates our belief that PAETEC offers its customers a world-class telecommunications solution," added Cockburn. "Our philosophy is to create local sales forces that provide a personal level of contact not found anywhere else."

~ more ~

About PAETEC Communications, Inc.

PAETEC Communications Inc., a subsidiary of PAETEC Corp., is a communications solutions provider offering broadband services, including advanced voice and video, enhanced data and communications management services to medium-sized and large businesses, colleges and universities, hospitals, hotels, governmental organizations, financial markets, and affinity groups. Headquartered in Fairport, N.Y., the company boasts one of the highest customer retention rates in the industry.

For further information, visit the PAETEC website at http://www.paetec.com.

EXHIBIT 4

Reply Comments of Verizon

WC Docket No. 05-25

July 29, 2005

Lew Reply Declaration Exhibit 4

A

XO Communications Ready to Provide UNE Alternatives to Carriers Affected by FCC's New Network Unbundling Rules

2/3/05

XO Offers Cost-Effective Transport and Voice Service Platform Alternatives

RESTON, VA - XO Communications, Inc. (OTCBB: XOCM.OB) today announced it is ready to assist telecommunications companies and other service providers that will be affected by the new final rules to be issued this week by the Federal Communications Commission (FCC) regarding the local network unbundling obligations of the regional Bell operating companies (RBOC). The new rules will increase the rates competitive carriers pay to lease switching and transport facilities from the RBOCs.

As one of the largest facilities-based national local exchange carriers, XO is ready to offer carriers a wide range of cost-effective transport and local voice service alternatives that will enable them to transition off the RBOC unbundled network elements, including the UNE platform, and onto XO's network facilities and fiber.

"As a result of these new FCC rules, competitive carriers will no longer have cost-based access to the RBOCs' local network facilities," said Ernie Ortega, president of carrier sales at XO Communications. "With our extensive array of facilities and fiber networks in local markets across the country, XO can provide a wide range of cost-effective UNE transport and UNE-P alternative solutions so that carriers can continue to offer services to their customers."

Services available from XO include:
• XO Private Line, which can serve as a replacement for UNE transport or Enhanced Extended Loop (EEL). XO Private Line can provide carriers with high-capacity point-to-point connectivity at DS1 and DS3 speeds to connect to central offices or reach their switching assets within carrier hotels. For more information about XO Private Line, go to http://www.xo.com/products/carrier/transport/privateline.
• XO Wholesale Voice Services, which can serve as a replacement for UNE-P. XO Wholesale Local Voice Services enables carriers to offer T-1 level local, long distance voice and data services to business customers utilizing XO's national array of local network facilities. For more information about XO Wholesale Local Voice Services, go to http://www.xo.com/products/carrier/voice/local.

To contact an XO sales representative for more information about these services, call (800) 474-1763.

About XO Communications
XO Communications is a leading provider of national and local telecommunications services to businesses, large enterprises and telecommunications companies. XO offers a complete portfolio of services, including local and long distance voice, dedicated Internet access, private networking, data transport, and Web hosting services as well as bundled voice and Internet solutions. XO provides these services over an advanced, national facilities-based IP network and serves more than 70 metropolitan markets across the United States. For more information, visit www.xo.com.

FOR MORE INFORMATION CONTACT:

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Contact XO

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Contact us online

Tariffs

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-30900

XO Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	54-1983517 (I.R.S. employer identification no.)

11111 Sunset Hills Road
Reston, Virginia 20190
(Address of principal executive offices, including zip code)
(703) 547-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act.). YES ☑ NO ☐

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. YES ☑ NO ☐

As of May 5, 2005, the number of shares of common stock of XO Communications, Inc. issued and outstanding was 181,933,035.

XO Communications, Inc. and Subsidiaries
Index to Form 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

XO Communications, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Amounts in thousands, except for share and per share data)

	March 31, 2005 (Unaudited)	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 256,617	$ 233,989
Marketable securities and other investments	10,675	17,300
Accounts receivable, net of allowance for doubtful accounts of $38,776 at March 31, 2005 and $38,981 at December 31, 2004, respectively	133,980	150,101
Other current assets	30,688	50,864
Total current assets	431,960	452,254
Property and equipment, net	791,892	820,536
Broadband wireless licenses and other intangibles, net	127,773	139,866
Other assets, net	46,375	46,729
Total assets	$1,398,000	$ 1,459,385
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 77,885	$ 88,010
Other current liabilities	229,625	241,532
Total current liabilities	307,510	329,542
Long-term debt and accrued interest payable	374,195	366,247
Other long-term liabilities	71,272	73,691
Total liabilities	752,977	769,480
Class A convertible preferred stock	207,451	204,353
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: par value $0.01 per share, 200,000,000 shares authorized: 4,000,000 shares of Class A convertible preferred stock issued and outstanding on March 31, 2005 and December 31, 2004	—	—
Warrants and common stock, par value $0.01 per share, 1,000,000,000 shares authorized: 181,933,035 shares issued and outstanding on March 31, 2005 and December 31, 2004	986,415	989,511
Deferred compensation	(508)	(574)
Accumulated other comprehensive income	2,620	4,712
Accumulated deficit	(550,955)	(508,097)
Total stockholders' equity	437,572	485,552
Total liabilities, convertible preferred stock and stockholders' equity	$1,398,000	$ 1,459,385

See accompanying notes to the unaudited condensed consolidated financial statements.

XO Communications, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Amounts in thousands, except for share and per share data)
(Unaudited)

	Three months ended March 31, 2005	Three months ended March 31, 2004
Revenue	$ 361,504	$ 260,945
Costs and expenses:		
Cost of service (exclusive of depreciation and amortization)	147,922	109,961
Selling, operating, and general	191,694	168,553
Depreciation and amortization	58,365	25,697
Total costs and expenses	397,981	304,211
Loss from operations	(36,477)	(43,266)
Interest income	1,893	1,705
Investment loss, net	(271)	(329)
Interest expense, net	(8,004)	(6,604)
Net loss	$ (42,859)	$ (48,494)
Preferred stock accretion	(3,097)	—
Net loss applicable to common shares	$ (45,956)	(48,494)
Net loss per common share, basic and diluted	$ (0.25)	$ (0.37)
Weighted average shares, basic and diluted	181,933,035	129,406,599

See accompanying notes to the unaudited condensed consolidated financial statements.

XO Communications, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	Three months Ended March 31, 2005	Three months Ended March 31, 2004
OPERATING ACTIVITIES:		
Net loss	$ (42,859)	$ (48,494)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	58,365	25,697
Accrual of interest	7,948	6,704
Stock-based compensation	66	129
Realized loss on investments	3,191	328
Changes in assets and liabilities:		
Accounts receivable	16,121	(3,076)
Other assets	(4,900)	(8,340)
Accounts payable	(6,180)	3,253
Accrued liabilities	(13,470)	(11,068)
Net cash provided by (used in) operating activities	18,282	(34,867)
INVESTING ACTIVITIES:		
Capital expenditures, net	(21,573)	(25,395)
Acquisition payments	—	(66,821)
Sales of marketable securities and investments	1,342	16,825
Release of escrow account	25,430	—
Net cash provided by (used in) investing activities	5,199	(75,391)
FINANCING ACTIVITIES:		
Repayments of long term debt and capital leases	(853)	(197,982)
Proceeds from issuance of common stock	—	197,612
Proceeds from exercise of stock options	—	2,583
Net cash (used in) provided by financing activities	(853)	2,213
Net increase (decrease) in cash and cash equivalents	22,628	(108,045)
Cash and cash equivalents, beginning of period	233,989	478,560
Cash and cash equivalents, end of period	$ 256,617	$ 370,515
SUPPLEMENTAL DATA:		
Cash paid for interest	$ 824	$ 612

See accompanying notes to condensed consolidated financial statements.

XO Communications, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

XO Communications Inc., a Delaware corporation, through its subsidiaries, owns and operates an integrated metropolitan and nationwide fiber optic network that provides a comprehensive array of telecommunications services to business customers in over 70 United States markets. Voice services include local and long distance services, calling card and interactive voice response systems. Data services include Internet access, private data networking and hosting services. XO, through its subsidiaries, also offers integrated combined voice and data services in flat rate "bundled" packages. The consolidated financial statements include the accounts and activities of XO, and its subsidiaries (collectively referred to as the "Company" or "XO").

Basis of Presentation

The condensed consolidated financial statements of the Company are unaudited and have been prepared in accordance with guidelines established for interim financial statements by the Securities and Exchange Commission's (the "Commission") instructions to Form 10-Q and U.S. generally accepted accounting principles. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements.

Operating results for any interim period are not necessarily indicative of the results for a full year or for any subsequent interim period. In the opinion of management, the unaudited condensed consolidated financial statements contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position and the results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States applicable to interim periods. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements of XO, included in its Annual Report on Form 10-K for the year ended December 31, 2004 (the "2004 Annual Report").

On June 23, 2004 (the "Closing Date"), XO completed the acquisition of all of the telecommunications services assets (the "Acquired Businesses") of Allegiance Telecom, Inc. ("Allegiance"). XO did not acquire Allegiance's customer premises installation and maintenance business, shared hosting business, or dedicated dial-up Internet access service business (the "Unacquired Businesses"). The accompanying financial statements include the results of operations from the Acquired Businesses since June 23, 2004.

Principles of Consolidation

The Company's consolidated financial statements include all of the assets, liabilities and results of operations of subsidiaries in which the Company has a controlling interest. All inter-company accounts and transactions among consolidated entities have been eliminated.

Use of Estimates and Assumptions

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management periodically assesses the accuracy of these estimates and assumptions. Actual results could differ from those estimates.

Certain reclassifications have been made to prior period amounts in order to conform to the current year presentation.

Net Income (Loss) Per Share

Net income (loss) per common share, basic and diluted, is computed by dividing net income (loss) applicable to common shares by the weighted average number of common shares outstanding for the period. In periods of net loss, the assumed common share equivalents for options, warrants, and the Class A convertible preferred stock are anti-dilutive, and are therefore not included in the weighted average shares balance on the consolidated statement of operations. As of March 31, 2005, the Company has options outstanding to purchase approximately 9.5 million shares of common stock of which 4.2 million are exercisable and exercisable warrants to purchase shares up to an additional 23.7 million shares of common stock that can further dilute investors, if exercised.

Stock-Based Compensation

As allowed by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," ("SFAS No. 148"), the Company has chosen to continue to account for compensation cost associated with its employee stock option plan in accordance with the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") adopting the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS No. 123"). Under this method, no compensation expense is recorded if stock options are granted at an exercise price equal to or greater than the fair market value of the Company's stock on the grant date. If the Company had adopted the fair value method of accounting for its stock awards, stock-based compensation would have been determined based on the fair value for all stock awards at the grant date using a Black-Scholes pricing model and the following weighted average assumptions:

	Three months ended March 31, 2005	2004
Expected volatility	61.0%	75.0%
Risk free interest rate	3.6%	2.7%
Dividend yield	0.0%	0.0%
Expected life (range in years)	4.0	4.0
Fair value per share at grant date	$ 0.96	$ 3.62

The Company's pro forma net loss applicable to common shares, and pro forma net loss per common share, basic and diluted, if the Company had used the fair value method would have been as follows (dollars in thousands, except per share data):

	Three months ended March 31, 2005	2004
Net loss applicable to common shares, as reported	$ (45,956)	$ (48,494)
Add: Stock-based employee compensation expense included in net loss, as reported	66	129
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all stock awards	(1,649)	(1,874)
Pro forma net loss applicable to common shares	$ (47,539)	$ (50,239)
Net loss per common share, basic and diluted – as reported	$ (0.25)	$ (0.37)
Net loss per common share, basic and diluted – pro forma	$ (0.26)	$ (0.39)

The XO Communications, Inc. 2002 Stock Incentive Plan (the "2002 Stock Incentive Plan") was adopted in January 2003 and amended and restated in July 2003. Under the 2002 Stock Incentive Plan, the Company is authorized to issue awards for up to 17.6 million shares of its common stock in the form of restricted stock or options to purchase stock. The Company granted a total of 147,000 options during the three months ended March 31, 2005.

Comprehensive Loss

Comprehensive loss includes the Company's net loss applicable to common shares, as well as net unrealized gains and losses on available-for-sale investments. The following table reflects the Company's calculation of comprehensive loss for the three months ended March 31, 2005 and 2004 (dollars in thousands):

	Three Months Ended March 31,	
	2005	2004
Net loss applicable to common shares	$(45,956)	$(48,494)
Other comprehensive loss:		
Net unrealized (losses) gains on investment	(2,092)	1,394
Comprehensive loss	$(48,048)	$(47,100)

Other Current Assets

Other current assets consist primarily of prepaid expenses as of March 31, 2005. In the first quarter of 2005, $25.4 million previously held in escrow was released and, accordingly, was reclassified into cash and cash equivalents.

Long-Lived Assets

Long-lived assets include property and equipment, broadband wireless licenses, and intangible assets to be held and used. Long-lived assets, excluding intangible assets with indefinite useful lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed pursuant to Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144"). The criteria for determining impairment for such long-lived assets to be held and used is determined by comparing the carrying value of these long-lived assets to management's best estimate of future undiscounted cash flows expected to result from the use of the assets. The Company believes that no impairment existed under SFAS No. 144 as of March 31, 2005. In the event that there are changes in the planned use of the Company's long-lived assets or its expected future undiscounted cash flows are reduced significantly, the Company's assessment of its ability to recover the carrying value of these assets under SFAS No. 144 could change.

Intangible assets with indefinite useful lives are tested for impairment annually during the fourth quarter, or more frequently if an event indicates that the asset might be impaired, in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). XO retained independent appraisers to perform a preliminary valuation of its assets and liabilities as of December 31, 2004. This valuation was necessary as XO's fair value, as determined by its stock price, was less than its book value. Based on this preliminary valuation, XO recorded a $212.5 million non-cash impairment charge on its goodwill during the year ended December 31, 2004. A full valuation was completed in the first quarter of 2005. There were no changes to the estimate of the impairment recorded in the fourth quarter of 2004.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), was issued in December 2004. Once effective, this statement will require entities to recognize compensation cost for all equity-classified awards granted, modified or settled after the effective date using a fair-value measurement method. In addition, public companies will recognize compensation expense for the unvested portion of awards outstanding as of the effective date based on their grant-date fair value as calculated under the original provisions of SFAS No. 123. The effective date for XO is the fiscal year beginning January 1, 2006. The amount of compensation expense that XO records after the adoption of SFAS No. 123R in 2006 and beyond will depend on the amount, timing and pricing of stock option grants.

2. MARKETABLE SECURITIES AND OTHER INVESTMENTS

The amortized cost, gross unrealized gains and losses and fair value of the equity securities available-for-sale as of March 31, 2005 and December 31, 2004, are in the following table. Other investments as of March 31, 2005 and December 31, 2004 consist of investments in the debt of McLeodUSA, Inc. ("McLeod") (dollars in thousands):

	Fair Value	Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding (Losses)
As of March 31, 2005				
Equity securities	$ 4,160	$ 1,540	$ 2,620	$ —
Other investments	6,515	10,510	—	—
Total marketable securities and other investments	$ 10,675	$ 12,050	$ 2,620	$ —
As of December 31, 2004				
Equity securities	$ 6,417	$ 1,705	$ 4,712	$ —
Other investments	10,883	10,883	—	—
Total marketable securities and other investments	$ 17,300	$ 12,588	$ 4,712	$ —

On March 16, 2005, McLeod announced that it is evaluating a capital restructuring due to its inability to generate sufficient cash flow. Subsequent to this announcement, the fair value of the McLeod debt was significantly reduced. Accordingly, XO has included a writedown of $4.0 in investment income, net to recognize the other than temporary decline. It is not certain how, if at all, McLeod will restructure its finances, and how that would further impact our investment.

3. LONG-LIVED ASSETS

XO's long-lived assets include property and equipment, broadband wireless licenses, and identifiable intangible assets to be held and used.

Property and Equipment

Property and equipment consisted of the following components (dollars in thousands):

	March 31, 2005	December 31, 2004
Telecommunications networks and acquired bandwidth	$ 695,511	$ 675,844
Furniture, fixtures, equipment, leasehold improvements and other	253,286	236,788
	948,797	912,632
Less: accumulated depreciation	(252,448)	(208,032)
	696,349	704,600
Construction-in-progress and undeployed assets	95,543	115,936
	$ 791,892	$ 820,536

Depreciation expense for the three months ended March 31, 2005 and 2004 was $46.3 million and $19.2 million, respectively. Assets classified as construction-in-progress and undeployed assets are not being depreciated as they have not yet been placed in service. During the three months ended March 31, 2005 and 2004, XO capitalized interest on construction costs of $1.0 million and $0.9 million, respectively.

Broadband Wireless Licenses and Other Intangibles

Broadband wireless licenses and other intangible assets consisted of the following components (dollars in thousands):

	March 31, 2005	December 31, 2004
Broadband wireless licenses	$ 59,508	$ 59,508
Customer relationships	112,366	112,366
Internally developed technology	9,521	9,521
Acquired trade names	5,673	5,673
	187,068	187,068
Less: accumulated amortization	(75,957)	(63,864)
	111,111	123,204
XO Trade name – indefinite life asset	16,662	16,662
	$127,773	$ 139,866

Amortization expense related to intangible assets for each of the three months ended March 31, 2005 and 2004 was $12.1 million and $6.5 million, respectively.

4. LONG-TERM DEBT

The Company has a secured credit facility (the "Credit Facility") which matures on July 15, 2009. There are no additional borrowings available under the Credit Facility. At March 31, 2005, more than 90% of the underlying loans of the Credit Facility are held by an entity controlled by Mr. Carl C. Icahn, Chairman of the Company's Board of Directors ("Mr. Icahn"). At March 31, 2005, long-term debt consisted of $368.5 million in principal and $5.7 million of accrued interest that, if not paid, converts to principal. There are no current debt service requirements since cash interest payments as well as automatic and permanent quarterly reductions on the principal amount outstanding do not commence until 2009. However, in the event that consolidated excess cash flow (as defined in the Credit Facility) for any fiscal quarter during the term of the agreement is greater than $25.0 million, at the request of the lender, the Company will pay an amount equal to 50% of such excess cash flow greater than $25.0 million toward the reduction of outstanding indebtedness. In addition, if the ratio of XO's consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated interest expense for four consecutive quarters exceeds 4:1, XO would be required to pay cash interest, unless waived by the lenders. The Company can elect to begin paying interest in cash prior to the required date. Loans under the Credit Facility bear interest, at the Company's option, at an alternate base rate, as defined, or a Eurodollar rate plus, in each case, applicable margins. Once the Company begins to pay accrued interest in cash, the applicable margins are reduced. At March 31, 2005, the annualized weighted average interest rate applicable to outstanding borrowings under the Credit Facility was 8.7%.

The security for the Credit Facility consists of all assets of XO including the stock of its direct and indirect subsidiaries, and substantially all the assets of those subsidiaries. The Credit Facility limits additional indebtedness, liens, dividend payments and certain investments and transactions, and contains certain covenants with respect to EBITDA requirements, as the term EBITDA is defined in the Credit Facility, and maximum capital expenditures. The Company was required to achieve a minimum consolidated EBITDA of not less than $97.0 million for the twelve-month period ended March 31, 2005. The Company is also required under the terms of the Credit Facility to maintain an unrestricted cash balance of $25 million at the end of each fiscal quarter.

In May of 2005, XO obtained a waiver of compliance with the minimum consolidated EBITDA covenant contained in the Credit Facility through December 31, 2006. The waiver was obtained from the affiliate of Mr. Icahn which holds a majority of the Company's loans outstanding under that agreement. In connection with that waiver, XO agreed that in the event of a sale of the Company and in the event of other significant sale or divestiture transactions, it will prepay all amounts outstanding under the Credit Facility in cash and offer to repurchase outstanding shares of XO's preferred stock at their liquidation value accrued through the date of redemption for cash or, in certain events, securities. The affiliate of Mr. Icahn which holds a majority of such Preferred Stock has agreed to accept that offer, to the extent it consists of cash.

5. RELATED PARTY TRANSACTIONS

Various entities controlled by Mr. Icahn hold the following interests in XO:

	Outstanding Common Stock	Series A, B and C Warrants	Credit Facility	Preferred Stock
December 31, 2004	Greater than 50%	Greater than 40%	Greater than 90%	95%
At March 31, 2005	Greater than 50%	Greater than 40%	Greater than 90%	95%

As a result of his majority ownership, Mr. Icahn can elect all of our directors, appoint the members of the committees of our Board of Directors, appoint key members of our executive management team, and appoint our auditors. Currently, Mr. Icahn is Chairman of the Board of Directors and three employees of Icahn Associates also sit on the Board of Directors and various Committees of the Board of Directors. Under applicable law and XO's Certificate of Incorporation and by-laws, certain actions cannot be taken without the approval of holders of a majority of our voting stock, including, without limitation, mergers, acquisitions, the sale of substantially all our assets, and amendments to our Certificate of Incorporation and by-laws.

Mr. Icahn, through various entities that he owns or controls, has the right to require XO to register, under the Securities Act of 1933, shares of XO's Common Stock held by such entities and to include shares of XO's Common Stock held by them in certain registration statements filed by XO.

As of March 31, 2005, Dixon Properties, LLC ("Dixon"), which is controlled by Mr. Icahn, owned the building in which XO's headquarters is located. XO currently leases approximately 170,000 square feet of space in that building. Pursuant to the lease agreement, XO has paid $1.0 million in lease rent to Dixon for the three months ended March 31, 2005. In May 2005, that building was sold to an unrelated party.

The Company provides certain telecommunications services to companies affiliated with Mr. Icahn. For each of the quarters ended March 31, 2005 and 2004, the total revenue recognized on such services affiliated with Mr. Icahn was approximately $1.1 million and $0.2 million, respectively. During the three months ended March 31, 2005 and 2004, the Company has purchased approximately $0.3 million in services from Icahn affiliates. During the three months ended March 31, 2005 and 2004, the Company purchased approximately $0.1 million in hardware and services from Dell Computers, Inc. Mr. Adam Dell, an XO director, is the brother of Mr. Michael Dell, the Chairman of Dell Computers, Inc.

6. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

XO is involved in lawsuits, claims, investigations and proceedings consisting of commercial, securities, tort, and employment matters, which arise in the ordinary course of business. In addition, disputes with respect to general unsecured claims and one administrative expense claim against XO in the aggregate amount of approximately $2.1 million remain pending from XO's 2002 Chapter 11 proceedings. In accordance with Statement of Financial Accounting Standards 5, "Accounting for Contingencies," XO makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. XO believes it has adequate provisions for any such matters. XO reviews these provisions at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. However, XO believes that it has valid defenses with respect to legal matters pending against it. Nevertheless, it is possible that cash flows or results of operations could be materially and adversely affected in any particular period by the unfavorable resolution or disposition of one or more of these contingencies.

During the three months ended March 31, 2005, the Company reached a $10 million settlement with SBC relating to charges previously incurred by XO for access to SBC's network assets. This settlement resulted in a reduction to cost of service.

Contingencies

Subsequent to the Closing Date, the Unacquired Businesses as well as the ongoing Allegiance bankruptcy claims were transferred from Allegiance to the Allegiance Telecom Liquidating Trust (the "ATLT"). XO filed an administrative claim with the Bankruptcy Court in August 2004 against the ATLT, for at least approximately $40.0 million under the Purchase Agreement and other agreements between the parties, relating to a variety of actions allegedly taken by Allegiance and the ATLT. Subsequently, XO informed the ATLT that the amount in dispute approximates $50.0 million. The ATLT has asserted a counterclaim alleging that it is owed approximately $100 million in respect to operating, working capital and other disputes that have arisen between the parties. XO is vigorously trying its claim and believes that the ATLT's counterclaim is frivolous and completely without merit. As of March 31, 2005, XO had $8.0 million recorded in other assets, net related to certain payments made by XO on behalf of the Unacquired Businesses that XO believes is reimbursable by the ATLT. Other than this amount, the accompanying financial statements do not include any impact from the litigation.